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Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-20 STR-01 OMB-01 CEA-01 CIAE-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-06 LAB-01 SIL-01

PA-01 PRS-01 USIA-06 DRC-01 /085 W
---------- 096223
R 111807Z OCT 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4727
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION OECD PARIS
USMISSION EC BRUSSELS
AMCONSUL EDINBURGH
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 11

BEGIN SUMMARY: ATTENTION FOCUSED MAINLY ON THE ELECTION THIS WEEK, AND THE ECONOMIC NEWS MAINLY EMPHASIZED THE GRIM SITUATION WHICH FACES THE NEW GOVERNMENT. BUSINESS
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CONFIDENCE, INVESTMENT, AND HOUSING ALL SHOW WEAKENING

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TRENDS. HOWEVER, THERE ARE SIGNS THAT PUBLIC SECTOR ACTIVITY IS MORE STIMULATIVE THAN HAD BEEN FORECAST, AND THIS MAY INDICATE SOME STIMULATIVE IMPACT ON THE ECONOMY IN THE COMING MONTHS. STERLING, AFTER REMAINING STABLE THROUGH TUESDAY (OCT.8) STRENGTHENED ON WEDNESDAY, ONLY TO FALL 160 POINTS ON THURSDAY TO $2.3255. THIS FALL IS ATTRIBUTED TO GENERAL MARKET REACTION AND PRE-ELECTION JITTERS, WITH NO UNDERLYING TECHNICAL EXPLANATION FOR THE SUDDEN DROP. ON A TRADE-WEIGHTED BASIS, THE STERLING DEPRECIATION WIDENED TO 18.6 PERCENT (OCT. 10) FROM LAST THURSDAY'S LEVEL OF 18.0 PERCENT. GOLD CLOSED THURSDAY (OCT. 10) AT $158.50, UP $2.50 FROM LAST THURSDAY'S CLOSE. THE PREMIUM ON INVESTMENT DOLLARS WIDENED TO A LEVEL OF 71-1/2 PERCENT ON THE OLD STERLING PARITY OF $2.60, REFLECTING, IN PART, UNDERLYING LACK OF CONFIDENCE IN THE UK ECONOMY. END SUMMARY

I. UK DOMESTIC ECONOMY

1. THE MONTHLY FINANCIAL TIMES (FT) BUSINESS OPINION SURVEY, PUBLISHED OCTOBER 7, SHOWED A DECLINE IN GENERAL BUSINESS CONFIDENCE, IN THE OUTLOOK FOR NEW ORDERS IN INDUSTRY, CAPACITY UTILIZATION, IN CAPITAL EXPENDITURE INTENTIONS, AND IN PROSPECTIVE LABOR REQUIREMENTS. IN THE LATTER CATEGORY, THE SURVEY SHOWED A MARKED DECLINE (FROM 32 PERCENT TO 19 PERCENT) OF RESPONDENTS WHO EXPECT THEIR LABOR FORCE TO INCREASE OVER THE NEXT 12 MONTHS, AND A LARGE RISE IN THOSE WHO EXPECT IT TO STAY ABOUT THE SAME (46 TO 58 PERCENT). EXPECTATIONS ON INVENTORY REQUIREMENTS HAVE ALSO FALLEN.

2. CAPITAL EXPENDITURE IN REAL TERMS IS NOW EXPECTED TO RISE BY 5 PERCENT IN 1974 AND BY ONLY 2-3 PERCENT IN 1975 ACCORDING TO A RECENT DEPARTMENT OF INDUSTRY SURVEY. THIS CONFIRMS THE SURVEY PUBLISHED IN JUNE. PRIOR TO THAT, SUCH SURVEYS HAD SHOWN THAT REAL CAPITAL EXPENDITURE WOULD PROBABLY INCREASE BY 12-14 PERCENT THIS YEAR. THE SURVEY RESULTS ARE ANOTHER INDICATOR OF THE GLOOMY ECONOMIC OUTLOOK AND THE FINANCIAL SQUEEZE ON INDUSTRY AS WELL AS SHOWING A WEAKENING DEMAND TREND IN THE NEXT 18 MONTHS.

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3. WEAK DEMAND WAS ALSO CONFIRMED BY FIGURES PUBLISHED THIS WEEK SHOWING REAL PERSONAL DISPOSABLE INCOME DROPPED BY 3-1/2 PERCENT BETWEEN THIRD QUARTER 1973 AND THE SECOND QUARTER OF THIS YEAR. CONSUMER EXPENDITURE FELL BY 1-1/2 PERCENT, AND THE SAVINGS RATE DROPPED FROM 11.5 PERCENT TO 9.5 PERCENT IN THE SAME PERIOD.

4. ALONG THE SAME LINES, PRIVATE HOUSING STARTS IN THE

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PERIOD JUNE TO AUGUST 1974 FELL 12 PERCENT OVER THE PRE-
VIOUS 3-MONTH PERIOD AND HAVE DECLINED BY 51 PERCENT OVER
THE JUNE-AUGUST PERIOD OF 1973. PUBLIC SECTOR HOUSING
STARTS ROSE SOMEWHAT. BUILDING SOCIETIES (I.E. SAVINGS
AND LOAN EQUIVALENTS) SHOW AN INCREASE IN FUNDS RECEIVED,
MAINLY THE RESULT OF EASING INTEREST RATE TRENDS
IN THE MONEY AND CAPITAL MARKETS. THUS, THEY EXPECT TO
MAINTAIN ADVANCES AT RECENT LEVELS OF ABOUT 300 MILLION
POUNDS PER MONTH. WHILE THIS MAY INDICATE A SLOWING DOWN
--IF NOT A TURNABOUT--IN THE RATE OF DECREASE OF PRIVATE
HOUSING STARTS, IT MAY ALSO INDICATE SHARP RISES IN HOUS-
ING PRICES.

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5. THE PUBLIC SECTOR BORROWING REQUIREMENT FOR FINANCIAL YEAR 1974/75 (APRIL 1974-MARCH 1975) MAY BE AS HIGH AS 4.8 BILLION POUNDS ACCORDING TO THE WIDELY RESPECTED ANALYSTS OF W. GREENWELL AND CO. WHEN THE GOVERNMENT INTRODUCED THE BUDGET FOR THE YEAR IN MARCH, THE BORROWING REQUIREMENT WAS PROJECTED AT ABOUT 2.7 BILLION POUNDS. THE PROJECTION WAS MODIFIED TO 3.8 BILLION POUNDS AFTER THE JULY MINI-BUDGET AND OTHER SPECIAL MEASURES

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HAD BEEN INTRODUCED. THIS MEANS THAT THE PUBLIC SECTOR WILL PROBABLY BORROW MORE THAN PROJECTED FROM THE BANKING SECTOR TO FINANCE ITS NEEDS AND THUS ITS ACTIONS WILL HAVE A LARGER STIMULATIVE IMPACT ON ECONOMIC ACTIVITY, MAINLY THROUGH INCREASES IN THE MONEY SUPPLY THAT SUCH BORROWING USUALLY ENTAILS. THE REASON FOR THE INCREASE IS ESSENTIALLY INFLATION, WHICH HITS GOVERNMENT HARDER THROUGH WAGES.

II. INTERNATIONAL

6. STERLING REMAINED STABLE FRIDAY (OCT. 4) THROUGH TUESDAY (OCT. 8). WITH WEDNESDAY'S (OCT.9) RUN ON THE DOLLAR, THE RATE INCREASED 70 POINTS TO $2.3415 BUT WITH PRE-ELECTION JITTERS, FELL 160 POINTS ON THURSDAY (OCT. 10) TO $2.3255. ON A TRADE-WEIGHTED BASIS, THE STRENGHTENING OF THE EUROPEAN CURRENCIES WIDENED THE POUND'S DEPRECIATION FROM 18.1 PERCENT (OCT. 4-8) TO 18.4 PERCENT ON WEDNESDAY (OCT. 9) AND TO 18.6 PERCENT ON THURSDAY, THE LOWEST LEVEL SINCE MARCH. GOLD CLOSED THURSDAY (OCT. 10) AT $158.50 UP $2.50 FROM LAST THURSDAY'S CLOSE.

7. DEMAND PRESSURES FROM INSTITUTIONAL INVESTORS PUSHED THE PREMIUM ON INVESTMENT DOLLARS.(THE EXTRA CURRENCY COST ASSOCIATED WITH INVESTMENTS IN FOREIGN STOCKS OR PROPERTY) TO A LEVEL OF 71-1/2 PERCENT ON THE OLD STERLING PARITY OF $2.60. THIS IS EQUIVALENT ON THE CURRENT STERLING EXCHANGE RATE TO AN EFFECTIVE PREMIUM OF 54-3/8 PERCENT. THIS NEAR HISTORIC SPREAD (A PEAK OF 60 PERCENT EFFECTIVE PREMIUM WAS REACHED WHEN THE POUND STOOD AT $2.40) REFLECTS STRONG BUYING BY INSTITUTIONAL INVESTORS, BUT MORE IMPORTANTLY REFLECTS THE CONTINUING CONCERN OVER THE STABILITY AND STRENGTH IN THE BRITISH ECONOMY.

8. THE FORWARD DISCOUNT SHOWED A SHARP WIDENING AS THE

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WEEK CLOSED.

	10/3	10/10	CHANGE
1 MONTH	0.45	0.70	UP 0.25
3 MONTHS	1.80	2.40	UP 0.60
6 MONTHS	3.85	4.60	UP 0.75

(ALL FIGURES IN CENTS)

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9. LOCAL AUTHORITY DEPOSIT RATES REMAINED STABLE THROUGH-OUT THE WEEK.

	10/3	10/10	CHANGE
1 MONTH	10-15/16	10-15/16	UNCHANGED
3 MONTHS	11-7/8	11-13/16	DOWN 1/16
6 MONTHS	12-15/16	12-7/8	DOWN 1/16

10. EURODOLLAR RATES SHOWED CONTINUAL EASING THROUGH THE WEEK WITH THE ONE-MONTH RATE FALLING AS LOW AS 10 PERCENT ON WEDNESDAY (OCT. 9).

	10/3	10/10	CHANGE
1 MONTH	11-3/4	11-1/8	DOWN 5/8
	10/3	10/10	CHANGE
3 MONTHS	12	11-1/8	DOWN 7/8
6 MONTHS	12	11-1/8	DOWN 7/8

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, OCTOBER 11, 1974.

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Message Attributes

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Draft Date: 11 OCT 1974
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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
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